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SUBJECT: GOVERNMENT SPENDING PROJECTIONS FOR 2005 RELEASED

1. (SBU) Summary: The annual Book of Estimates released by Finance Minister Brian Cowen on November 18 projects a 6 percent increase in public spending over 2004 as part of its forecast for the 2005 government budget, to be published December 1. Minister Cowen characterized the expenditure plans as "cautious," noting that a spending spree could create inflationary pressures and damage Ireland's economic competitiveness. The Estimates, however, include noteworthy spending increases for health, education, and disability services, which will support Fianna Fail's bid to refashion its image as a ruling party attuned to social concerns. End summary.

2. (U) In a November 18 press conference, Finance Minister Brian Cowen presented the annual Book of Estimates, a summary of government expenditure plans foreshadowing the final 2005 government budget, to be published December 1. Minister Cowen noted that a total of euro 43.6 billion in exchequer funds (or roughly 30 percent of projected 2005 GDP) would be distributed among the various government departments. The estimates are subject to revision in the actual budget, with some spending plans, such as social welfare increases, to be revealed only on December 1. Minister Cowen said that his aim in framing the 2005 Estimates and budget was to ensure continued economic growth and employment, while generating resources for key social/public services and investment priorities. He added that annual GDP growth in 2004 would be roughly 5 percent, but identified a number of risks that could prompt a slowdown in domestic economic activity, including oil prices, U.S. dollar movements, and a possible weakening of the U.S. economy.

3. (U) Minister Cowen announced a spending increase for 2005 of nearly euro 2.5 billion over 2004, a 6 percent jump, which would bring total public spending to euro 43.6 billion. The main allocations are:

- Euro 11 billion for health, an increase of euro 915 million or 9 percent over 2004;
- Euro 7.1 billion for education, an increase of euro 530 million or 8 percent over 2004;
- Euro 2.8 billion for disability services, an increase of euro 290 million or 11 percent over 2004;
- Euro 445.7 million for the Department of Arts, Sports and Tourism;
- Euro 60 million for official development assistance (ODA), an increase of 15 per cent over 2004, with promises of further increases in 2006 and 2007;
- Euro 2.1 billion for the Department of Transport, an increase of 7 percent over 2004, to be allocated mainly to new roads, integrated ticketing on public transport, and a new train station in Dublin's docklands;
- A 5 percent increase for the Department of Justice, Equality and Law Reform, with euro 55.6 million to be allocated to the Garda (National Police);
- Euro 1 billion for the Department of Defense, earmarked for the upgrading of equipment and training in the Air Corps, Army, and Navy.

4. (U) Minister Cowen characterized the government's 2005 expenditure plans as "cautious" and warned that a spending spree would overheat the economy, damaging Ireland's economic competitiveness. "We have come too far to expose ourselves to such a threat," he said. The Estimates provide latitude for increases in the number of teachers and health staff, but the Minister cited his objective to reduce public service employees by 5,000, in line with previous GOI commitments.

5. (U) Following the publication of the Estimates, a number of Ministers held press briefings to outline their respective departments' outlays, based on their expected 2005 allocations. Minister for Health and Children Mary Harney said that 230,000 additional people would become eligible for medical cards (the Irish equivalent of

medicare) and that an extra 300 hospital beds would be provided to hospitals. She announced 10 initiatives costing euro 70 million to relieve pressure on Accident and Emergency departments. (A lack of funds and a shortage of hospital beds account for long patient queues at Irish hospital emergency wards, a hot-button social issue.) She also announced an increase of euro 205 million to be spent on services for people with disabilities, including the recruitment of roughly 1,000 staff for disability care facilities. The Minister for Justice, Equality and Law Reform, Michael McDowell said that a new criminal court complex would be built in Dublin and that 1,000 extra Gardai (National Police) would be recruited. Minister for Education Mary Hanafin noted that key features of the additional euro 544 million available to her department were: an additional euro 47 million to tackle education for the disadvantaged; an extra euro 67 million for special education; and a 35 percent increase in library grants. Almost half of the euro 544 million education allocation will go to salaries for teachers at the primary and secondary (high school) level.

16. (U) Opposition party members claimed that the Estimates marked the beginning of Fianna Fail's campaign for the 2007 general elections. Richard Bruton, Fine Gael spokesperson on Finance, said the Estimates were "big on talk but low on delivery," insofar as they focused on small changes in individual budgets instead of fundamental reform of the system. Labour's Finance spokesperson, Joan Burton, claimed that the medical card initiative would burden an already dysfunctional health care system, and she criticized the failure to include new capital spending in the package.

17. (U) Emboff contacted Dr. Michael Casey, Assistant Director General, Central Bank of Ireland who noted that the rate of increase was similar to 2004 and the Book of Estimates was "roughly what we expected".

18. (SBU) Comment: The Book of Estimates presages a 2005 government budget that will balance the imperative to avoid inflationary pressures with Fianna Fail's need to refashion its image as a party attuned to social concerns. The Estimates are thus a natural follow-on to the September 29 Cabinet shuffle that was prompted by Fianna Fail's poor showing in local and European Parliament elections last June. Noteworthy spending increases for health, education, and disability services are aimed to redress perceptions that the ruling party has created wealth during the Celtic Tiger era, but has overlooked social needs. The significant jump in overseas development aid specifically targets criticism that the Government has fallen behind in its Millennium commitment to spend 0.7 percent of GNP on ODA (though with this increase, the target will still not be met). Given this context, Post and most economic commentators anticipate that the final 2005 budget will include additional spending increases for social welfare.

KENNY